

REPORT

OF THE

AUDIT COMMITTEE.

BROUGHT UP 22ND AUGUST, 1866, AND ORDERED TO BE PRINTED.

WELLINGTON.

—
1866.

REPORT OF THE SELECT COMMITTEE APPOINTED TO AUDIT THE FINANCE
ACCOUNTS FOR THE YEAR 1864-1865.

Your Committee have examined the Accounts of the Colony for the twelve months ending 30th June, 1865, which were laid before them accompanied by a certificate from the Auditor of Public Accounts, in accordance with the provisions of "The Audit Act, 1858." They examined Dr. Knight as to the manner in which the correctness of these accounts had been ascertained by him, and satisfied themselves that the various items of expenditure had been supported by the production of equivalent vouchers, and that the accuracy of the accounts as an arithmetical record of moneys actually received and expended is unimpeachable.

The Committee, however, desire to call the attention of the House to the fact stated in the Auditor's Report, and supported by the evidence of the Assistant Treasurer, that the public moneys have been issued from the Treasury throughout the financial year 1864-5 without the sanction of the Governor's warrant, and on the sole authority of the individual Minister at the head of each Department. During the period over which the inquiries of your Committee extend, it appears that no less than one million and a half of money has been issued from the Treasury without the authority of the Governor's warrant having been obtained either before or after such issue.

The reasons assigned for this grave irregularity are, that the circumstances of the Colony at the time required that payments should be made without delay at so many and at so distant places that it was impracticable to procure warrants in anticipation of these payments. The Committee do not feel themselves called upon to express an opinion as to the sufficiency of this explanation, more especially as the recurrence of the evil is provided against by "The Comptroller's Act, 1865." They do, however, feel it to be their duty to urge upon the House their strong and unanimous opinion that it is essential to the safe and economical management of the finances of the Colony that that Act should be brought into operation with the smallest possible delay. But the evidence the Committee have taken convinces them that some amendments are required to secure the full efficiency of the Act. They conceive that its provisions should apply not only to the appropriation of moneys raised under the authority of law, but equally to all moneys expended in the public service.

The committee also recommend that the Auditor should be empowered to require the production of the Treasurer's requisitions countersigned by the Comptroller under the provision contained in clause x. of the Comptroller's Act, and that it should be the duty of the Auditor to see that the moneys issued have been applied in the manner set forth in the requisitions, and report accordingly. The committee further suggest that the signature of the Comptroller should be attached to all issues of Debentures or Treasury Bills, which they find under the provisions of "The New Zealand Loan Act, 1863," and of "The Debentures Act, 1864," are negotiable under the sole signature of an agent to be appointed by the Governor, no check whatever being provided to secure that the issue of such debentures shall be confined to the amount authorized by law.

The committee need scarcely point out that the absence of any such check is calculated to allow of doubt being thrown upon the value of the Colonial securities, and that the effect of any such doubt must necessarily be to inflict serious injury on the credit of the Colony, as well as to produce a more immediately injurious consequence to its finances by a depreciation in the value of its securities. They scarcely think it needful to refer to the temptation which is held out to the Executive Government to increase the indebtedness of the Colony beyond the amount sanctioned by the Legislature, or to the door left open to direct fraud on the part of the agents of the Colony abroad.

The committee heartily concur in the opinion of Mr. Woodward, that all Treasury Bills and Debentures should bear the signature of the Colonial Treasurer, and should also be countersigned by the Comptroller, in proof that they have been issued under authority of Acts of the Legislature, and that they are not in excess of the amounts authorized by such Acts to be negotiated. There are some further minor suggestions on this subject, of practical value, for which the committee refer the House to Mr. Woodward's important and well considered evidence. On reference to "The Debentures Act, 1860," it will be found that debentures issued under the authority of that measure must bear the signatures of the Governor, the Colonial Secretary, and the Colonial Treasurer; and the committee are at a loss to account for the extremely loose provisions of the later Acts.

The committee agree with Mr. Woodward, that, subject to such provisions with respect to the form of issue as those they have above referred to, power should be given to the Government, by Act of the Legislature, from year to year, to issue a limited amount of Treasury Bills to supplement the receipts of the revenue when the exigencies of the public service shall require such assistance, and that all advances from the Banks by way of overdraft should be discontinued, and declared by Statute to be illegal.

In the accounts before the committee the unauthorized expenditure of the year, amounting to £126,160 14s. 7d. is thus classed.

	£	s.	d.	£	s.	d.
<i>Services not provided for by Appropriations.</i>						
General	96,876	2	1			
Provincial	7,166	4	6	104,042	6	7
<hr style="width: 50%; margin: auto;"/>						
<i>Services in excess of Appropriations.</i>						
General	6,131	8	10			
Provincial	15,986	19	2	22,118	8	0
<hr style="width: 50%; margin: auto;"/>						
				<u>£126,160</u>	<u>14</u>	<u>7</u>

The first and largest amount includes the cost of the removal of the Seat of Government and other charges, which underwent full discussion in the House last session, and the committee therefore confined themselves chiefly to an investigation of the three remaining items. The first of these is composed mainly of expenditure incurred in building a New Post Office at Dunedin, which, on calling for correspondence relating to the subject, the committee found to have been commenced on the authority of the then Postmaster-General, Mr. Gillies.

In investigating the remaining items, consisting of expenditure in excess of the appropriations of the Legislature, the committee made special inquiries from the officers of each department in which any such material excess appeared, as to the causes to which it was attributable. The answers to the whole of these inquiries appear in the minutes, a copy of which the committee append to their report, and they will therefore only refer to a few of the more important items.

Under the heading "General Expenditure," the sum voted for Judicial purposes was £4050, while the disbursements under that head amount to £9400, showing an excess of about £5350, which the committee ascertained to arise from the extraordinary expense of criminal prosecutions, chiefly in the Province of Otago.

In Provincial expenditure an excess occurs in the same item, of £800 in Marlborough, and £1000 in Canterbury. In both cases the increase is accounted for by the unforeseen demands occasioned by the discovery of Gold Fields in those Provinces.

The same explanation applies to the unauthorized expenditure under the head "Postal" of £500 in Marlborough, and £3000 in Canterbury; and, under the head "Customs," of £800 in Marlborough, and £1700 in Canterbury.

The committee were struck with the large and increasing expenditure in the Provinces, shewn under the head "Electoral," and on calling for evidence on the point, and for the vouchers connected with it, they found that the great bulk of the items consists of the cost of advertising claims to vote, and printing the Electoral Rolls. They recommend the subject to the attention of the House, in the hope that measures may be adopted to reduce this heavy item of expense, which is necessarily increasing from year to year in the ratio of the population. But an examination of the detailed accounts of expenses incurred for advertising, leads them to think that a considerable reduction might, in some cases at least, have been effected by judicious arrangements with the proprietors of newspapers.

The committee took some pains to inquire into the expenditure under the head "Native Purposes Appropriation Act, 1862," which amounts to upwards of £47,000, in addition to the £7000 charged upon the Civil List. The expenses connected with the detention of prisoners taken during the war form a considerable item in this amount; which is otherwise made up of salaries and travelling expenses of officers of the Native Department, and of presents and entertainments to Natives. The committee find that a considerable part of the cost of these presents and entertainments is incurred by district officers, without the previous authority of the head of the department; and that, perhaps unavoidably, the accounts connected with it are of a loose and unsatisfactory nature.

Your committee noticing a sum of £946 charged against the Colony on account of the defalcation of G. Law made particular inquiry into the matter. They find that Mr. Law was a Civil Commissioner at Taupo; that he was entrusted with funds for the payment of the salaries of Native assessors and other officers in his district; and that he appropriated a portion of those funds, to the extent of the sum mentioned, to his own use. It appears that Mr. Law was charged before the Resident Magistrate in Auckland with embezzlement, but the evidence being insufficient to support the charge, the case was dismissed. It further appears that no sureties had been taken from Mr. Law, and that the loss falls consequently upon the public funds.

The committee refer to this matter chiefly with a view of impressing upon the House the necessity of requiring all persons to whom advances of public money are made, to furnish security for its due appropriation. They are informed that the Government have resolved upon pursuing this course for the future, but they fear that unless the House itself takes action in the matter, the new practice may fall into disuse as the recollection of the circumstance which gave rise to it fades away.

Your committee, after carefully considering the form in which the public accounts are presented to them, have arrived at the conclusion that, considering the complications arising from the existing financial relations between the Colony and the Provinces—from the variety of accounts connected with the loans of 1856, 1860, and 1863, and from the custom which has prevailed of obtaining money from the Bank of New Zealand, in anticipation of the receipts of revenue, and of the proceeds of the loans, those accounts are submitted to them in as clear and simple a shape as the circumstances permit.

But there is one feature in the accounts which appears to the committee to deserve serious attention. They refer to the "Reserve Fund Account," which they are informed by the Assistant-Treasurer had its origin in the year 1857-8, when the balance of a sum voted for the library of the General Assembly, which had not been expended during the financial year, was entered in the accounts as though it had been so expended, and the amount "reserved" for expenditure in the following year. Since that date other sums have been placed to the account in question, under similar circumstances, the account gradually increasing, until, on the 30th of June, 1865, there was a balance to its credit of upwards of £48,000, composed of the following items:—

	£	s.	d.
Contribution to Main Line	17,050	0	0
Native Purposes	26,424	1	3
Native Schools Act	4,551	0	4
Manual of New Zealand Botany	300	0	0
	<u>£48,325</u>	<u>1</u>	<u>7</u>

The committee strongly recommend that this account should be at once closed; and that all sums voted by the Legislature which have not been expended during the financial year to the service of

which the Appropriation Act in which they are included applies, shall in future go in augmentation of the revenue of the ensuing year, and the appropriation of such sums shall be considered to have lapsed until they have again been submitted to the consideration of the House.

J. WILLIAMSON, Chairman,
OSWALD CURTIS,
CH. E. HAUGHTON.

Audit Committee Room, House of Representatives,
Wellington, 22nd August, 1866.

COPY OF MINUTES OF MEETINGS OF THE AUDIT COMMITTEE, 1866.

THURSDAY, 19TH JULY, 1866.

Present: Mr. John Williamson (in the Chair), Mr. Haughton, and Mr. Curtis.

Order of reference of 17th July, read.

Mr. Anderson, of the Audit Office, attended to give evidence, and placed before the committee the following papers, viz.: 1st—Financial Account, 1864-5. 2nd—Annual Account Book of Colonial Treasurer. 3rd—Certificate of the Auditor of Public Accounts.

Resolved—That the committee proceed, in the first instance, to compare the accounts of expenditure for the year 1864-5 with the Appropriation Act, in order to ascertain whether the will of the Legislature has been in this respect fully complied with.

The Certificate of the Auditor of Public Accounts was read by the Clerk, viz.:—

“I certify that I have examined the Statement of the Receipts and Expenditure of the Colonial Treasurer of New Zealand for the financial year 1864-5, and that, with the exception of the items specified in the queries, copies of which are hereunto annexed, I find that the statement is correct, as to the accounts and balance sheet of transactions for the period comprised therein; and that the expenditure shown in the said account has been properly classified, and any part thereof incurred without authority of law is separately shown as unauthorized expenditure, with the exception of the expenditure charged under “The Loan Act, 1862-3,” during the period from the 1st April to the 30th June, 1865; and with the exception also of the issue of public moneys from the Colonial Treasury, which appears to have been made without warrants under the hand of the Governor, contrary to the 54th clause of the Constitution Act.

(Signed)

“CHARLES KNIGHT,
“Auditor of Public Accounts.”

“4th July, 1866.”

The committee proceeded to examine the items of accounts in the order set forth in “The Appropriation Act, 1863.”

The items of unauthorized expenditure, viz.: (B. No. 2, p. 60) Crown Lands Department, £161 7s. 7d.; Colonial Treasurer's Department, £201 19s.; Defence Minister's Department, £603 9s. 2d., were severally inquired into.

Mr. Anderson stated that the items as above were expended almost entirely on account of salaries, whereupon it was

Resolved—That in the investigation of unauthorized expenditure, the committee obtain evidence from each department in which any material excess of expenditure has occurred to show the causes which have led to such unauthorized expenditure, and that the committee embody the results of these inquiries in their report to the House.

The committee further proceeded to inquire into item under Judicial, viz.: £5339 11s. 6d.

Mr. Anderson explained this item as having arisen out of criminal prosecutions (£7550), chiefly in the Province of Otago.

Resolved,—That the committee do meet every day except Saturday at 10:30 a.m.

The committee adjourned until Friday, the 20th July, at 10:30 a.m.

FRIDAY, 20TH JULY, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the previous meeting were read and confirmed.

Mr. Anderson was in attendance to give any further explanation that might be required of him.

The committee proceeded to examine the items of unauthorized expenditure commencing with—

1.—Province of Auckland.

Customs, £1428 4s. 4d. (61-B., No. 2).

The committee agreed to postpone this item for explanation by the Commissioner of Customs.

2.—Postal, £163 14s. 7d. (61 B. No. 2).

Mr. Anderson explained that this sum comprised chiefly contingencies, such as gratuities for mails, poundage and commission on postage stamps.

3.—Province of Taranaki.

Judicial, £162 13s. 5d. (61 B. No. 2).

Mr. Anderson stated this sum to be made up in contingencies.

4.—Customs, £127 9s. 4d. (61 B. No. 2).

Mr. Anderson gave similar explanations as to this sum.

5.—Postal, £222 17s. 7d. (61 B. No. 2).

Explained by Mr. Anderson to be made up of contingencies and salaries.

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6.—*Province of Wellington.*

Electoral, £259 16s. 6d. (61 B. No. 2).

This sum, according to Mr. Anderson's statement, was expended on advertising Electoral Rolls and contingencies.

7.—Postal, £212 13s. (61 B. No. 2).

Expended on contingencies.

8.—*Province of Nelson.*

Postal, £441 17s. 7d. (61 B. No. 2).

Mr. Anderson stated this sum also to have been expended in contingencies.

9.—*Province of Marlborough.*

Judicial, £794 14s. 7d. (61 B. No. 2).

10.—Customs, £816 11s 7d. (61 B. No. 2).

11.—Postal, £475 19s. (61 B. No. 2).

All these items were stated to have been salaries and contingencies, principally on account of the gold fields.

12.—*Province of Canterbury.*

Judicial, £992 19s. 4d. (61 B. No. 2).

13.—Electoral, £194 2s. 10d. (61 B. No. 2).

14.—Customs, £1719 1s. 2d. (61 B. No. 2).

15.—Postal, £3086 14s. 4d. (61 B. No. 2).

These items were explained as having been expended on salaries and contingencies, principally on gold fields, and advertising Electoral Rolls.

16.—*Province of Otago.*

Judicial, £3551 13s. (62 B. No. 2).

17.—Electoral, £348 12s. 10d. (62 B. No. 2).

The first of these items was stated by Mr. Anderson to have been expended on salaries, contingencies, and criminal prosecutions; and the latter, on contingencies and publication of Electoral Roll.

Mr. Anderson retired, after being requested to hold himself in readiness to be recalled if it should be found necessary.

Resolved,—That on Monday next, at 10.30 a.m., the Committee proceed to inquire into the reasons for the unauthorized expenditure of each department, and that the Chief Clerk or other authorized person in charge of the accounts of his department be requested to attend.

The committee then adjourned till 10.30 a.m. on Monday next, 23rd instant.

MONDAY, 23RD JULY, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the previous meeting were read and confirmed.

The committee then adjourned till Tuesday, 24th July, at 10.30 a.m.

TUESDAY, 24TH JULY, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the previous meeting were read and confirmed, and in consequence of the Panama English mail leaving to-day the committee adjourned till Wednesday, 25th instant, at 10.30 a.m.

WEDNESDAY, 25TH JULY, 1866.

The committee met pursuant to adjournment: Present all the members.

Mr. Woodward, Assistant Treasurer, attended to give explanations, and after a general conversation on the subject of the accounts, gave explanations as to the abstracts of accounts on page 73 B. No. 2, directing the attention of the committee to the preceding detailed statements of the several accounts in the Finance Account (13 B. No. 2, 1864-5).

The committee then submitted to Mr. Woodward several queries to be answered in writing.

By the Chairman.] Would Mr. Woodward have any objection to furnish the committee with his opinion as to the most effective means of securing the expenditure of the public money according to the wishes of the Legislature, as expressed from year to year in the Appropriation Act? Is he of opinion that "The Comptroller's Act, 1865," together with "The Audit Act Amendment Act, 1865," provide sufficiently for this object?

Mr. Woodward stated that he should have no objection whatever, and that he would furnish his opinion in writing.

The committee then adjourned till Thursday, 2nd August, at 10.30 a.m.

THURSDAY, 2ND AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

Mr. Woodward attended, and handed in the following written questions furnished him by the committee, to which he had appended the annexed replies; and also his opinion on the subject referred to him at the last meeting:—

Q.—How did the Treasury account at the Bank stand at the commencement of the financial year 1864-5? Was there any cash to the credit of the Colony at that period? A.—The Treasury account at the Bank was overdrawn to the extent of £733,481 13s. 6d., but there were balances in the hands of Sub-Treasurers and others amounting to £52,222 19s. 8d., leaving a net debit balance of £681,258 13s. 10d.

Q.—Out of what sources were the funds necessary for the ordinary and extraordinary demands of the Colony supplied during the period from 1st July, 1864, to 30th June, 1865? A.—Out of the revenue, proceeds of portion of loan of 1863, and debentures under Debentures Act, 1864-5, aided and anticipated by temporary supplies in the way of overdraft from the Bank of New Zealand.

Q.—There appears to be a balance remaining of the loan of 1856, £37,036 4s. 3d.—what proportion of the balance stands to the credit of the respective Provinces in the Northern Island.

	£	s.	d.
A.—2nd Division of Loan	774	12	11
2nd Division of Loan, Auckland	2,011	8	9
" " Wellington	2,292	5	5
" " Taranaki	31,982	6	2
	£37,060	13	3
Less overpayment to Hawke's Bay	24	9	0
	£37,036	4	3

Q.—The Auditor-General reports that the issue of public moneys from the Colonial Treasury has been made without warrants under the hand of the Governor. The Committee wish to be informed as to the circumstances under which this has taken place? A.—The circumstances of the Colony requiring payments to be made at so many and such distant points, rendered it impracticable to obtain warrants prior to expenditure, except at the Colonial Treasury, where warrants were regularly obtained from the early part of the year 1865; a covering warrant was prepared for the whole expenditure up to 31st March, 1865, but the (then) Premier declined to lay it before the Governor, because it had been proposed that a Committee of the Legislature should be appointed to inquire into the expenditure under "The Loan Act, 1863."

Q.—Has the warrant for expenditure, up to 31st March, 1865, ever been given by the Governor? A.—No.

Q.—Has any other warrant, including the sums proposed to be covered by the warrant up to March 31st, 1865, been given by the Governor? A.—No.

Q.—What amount of money was issued from the Treasury during the year 1864-5 without the authority of the Governor's warrant? A.—£1,562,246 6s. 2d.

Q.—Has any warrant been given since 1864-5 to cover issues from the Treasury during the year? A.—No.

Q.—When demands were made upon the Treasury for the payment of money under what authority did the Treasury consider itself justified in issuing the funds necessary to meet claims made in such a case? A.—Vouchers, approved by the Ministers at the heads of departments for which the payment was required to be made, on being sanctioned by the Colonial Treasurer, were regarded as giving sufficient authority.

Mr. Woodward's opinion on the working of the Comptroller's Act and Audit Acts.

Taking the three Acts together they do appear sufficient to answer the apparent design of the Legislature while the finances of the Colony are in a normal state (with one exception which is noticed below). As soon however, as the finances become abnormal, and moneys are advanced by banks or otherwise, then the operation of the Comptroller's Act would be virtually nullified, as it only deals with money raised under the authority of law.

The exception referred to is, that there is nothing in either Act to connect the Comptroller with the Audit. The Auditor is not authorized to require the production of the requisition signed by the Comptroller, and the Comptroller has no means of knowing that the money he directed to be issued has been issued for the purpose named in the requisition and none other.

The check that I think should be imposed in respect of overdrafts or other advances of a temporary character is, that such advances should be declared by Statute to be made solely on the personal responsibility of the members of the Government requiring such overdraft or advance. This would not absolutely prevent such assistance being obtained in an emergency, but yet would render any Government very careful as to the reasons for requiring such overdraft, and also as to its extent.

There is also, in my opinion, an important omission in the Comptroller's Act in reference to the future issue of Treasury Bills or Debentures. I believe this point was intentionally omitted, as it was put into the Bill prepared by the former Government, and I still think that it ought to have been included. I think that instead of the very loose and objectionable mode adopted in the Loan Act of 1863, and in subsequent Debenture Acts (that of requiring the debentures to be signed by an agent only) all debentures ought to be signed by the Colonial Treasurer as the Minister charged with the finance of the Colony, and should bear upon their faces a certificate signed by the Comptroller to the effect that such debentures had been made under the authority of certain Acts and were not in excess of the amount that had been authorized to be issued. This would be complete as to the making the instruments, but in addition to this they ought to be registered by the accountant of the Treasury, who should affix his signature (or initials) to show that this had been done, and they should then be issued by the Assistant Treasurer, who should fill up, date, and sign a certificate of issue. I may add that recent experience has shown that the absence of such official certifications has greatly damaged the value of New Zealand securities in the London market.

I would further add that, in my opinion, it will be necessary, in order that the Comptroller's Act

may be made sufficiently stringent to accomplish its purpose, and yet to leave that degree of elasticity and freedom of action which is indispensable in administering the finance of any country, and more especially of a new one, that every Appropriation Act should give some power to issue Treasury Bills. With some such provisions for their being made and issued as are now proposed, the check of the Comptroller would remain as perfect as the present Act seeks to make it, in respect to actual revenue and loans authorized by law.

By Mr. Haughton] Will you explain the Reserve Fund Account (73 B. No. 2,) and state how the balance of £48,325 1s. 7d., appears to stand to the credit of that fund?

Mr. Woodward.] I lay upon the table, in answer to that question, a copy of a Memorandum that I have already prepared for the information of the Colonial Treasurer.

Mr. Woodward then read the document (which is marked A. and annexed) and was thanked by the committee for his attendance and for the information afforded.

The committee resumed their inquiry into the items of unauthorized expenditure, in accordance with their resolution passed at their meeting held 19th July.

Secretary for Crown Lands Department.

Mr. Masters attended and explained that the item of £161 7s. 7d. of unauthorized expenditure had arisen out of the employment of an assistant draughtsman to prepare Crown Grants issued under the Native Lands Act.

Colonial Treasurer's Department.

Mr. Batkin attended and explained that the item of £201 19s. of unauthorized expenditure had arisen out of the employment of an additional clerk, in consequence of the transfer of the payment of the Colonial Forces from the Paymaster's Department to the Colonial Treasury, and of other additional work in connection with the war being thrown on the office.

The committee then adjourned to Friday, 3rd August, at 10:30 a.m.

A.—Memorandum explanatory of the Reserve Fund.

The Reserve Fund is nominally composed of sums deducted from the revenue of a given year to meet engagements for particular services for which sums had been appropriated by the Legislature, but which sums had not been expended during the year for which the provision was made. The first sum "reserved" in the history of the finances of the Colony will illustrate this. In the year 1857-8 a sum was voted for the library of the General Assembly, of which £128 18s. 2d. was unexpended at the close of the year, but was charged in the Revenue Account as if it had been expended, being "reserved" in general balance, to be used for the purpose designated in the ensuing year. Gradually other sums were charged in the same manner, notably under the heads "Native Schools Act," "Native Purposes," and "Postal contribution to Main Line," which sums went to swell the "General Charges" which are distributable among the Provinces, but the fund had no real existence, as the constant drain upon the Treasury for the extraordinary expenditure occasioned by the war, caused all the money that was accessible to be used to meet the exigencies of the public service. The table annexed will show how the fund went on accumulating to the end of the year 1864-5, in making up the accounts for which period the Colonial Treasurer reduced both the number of items and the amount as far as practicable, leaving a balance of only £48,325 1s. 7d., instead of £57,471 8s. 11d., with which the year began. This balance of £48,325 1s. 7d. was composed of the following items:—

	£	s.	d.
Contribution to Main Line	17,050	0	0
Native Purposes	26,424	1	3
Native Schools Act	4,551	0	4
Manual of New Zealand Botany	300	0	0

£48,325 1 7

During the ten months of the past financial year (July 1st, 1865, to 30th April, 1866) for which the accounts have been posted, the operations on the amounts given above, have been as under:—

	£	s.	d.	£	s.	d.
<i>Cr.</i> July 1st. Contribution to Main Line	17,050	0	0			
<i>Dr.</i> " Amount paid	17,050	0	0			
<i>Cr.</i> " Native Purposes	26,424	1	3			
" Arrears received	630	6	7			
	27,054	7	10			
<i>Dr.</i> " Amounts paid	10,675	12	11			
				16,378	14	11
<i>Cr.</i> " Native Schools Act	4,551	0	4			
<i>Dr.</i> " Amounts paid	912	7	11			
				3,638	12	5
<i>Cr.</i> " Manual New Zealand Botany	300	0	0			
" Amount received	1	10	0			
				301	10	0
				£20,318	17	4

The balance is thus shown to be composed of amounts at the credit of

	£	s.	d.
Native Purposes	16,378	14	11
Native Schools Act	3,638	12	5
Manual of New Zealand Botany	301	10	0
	£20,318	17	4

This amount will be still further reduced to some extent by the end of the year, and it will be a question for the Colonial Treasurer to decide whether the fiction of a non-existent fund is to be continued. The operation of the Appropriation Act of the past year will necessitate a Reserve Fund to such an extent as may meet actual "contracts and engagements," but such a fund would be extinguished in the course of the succeeding year. This would be unobjectionable, but so much can scarcely be said for the "Reserve Fund" that has appeared in the accounts of the last few years.

Treasury, Wellington, 21st July, 1866.

J. WOODWARD.

TABLE showing the Progressive Accumulation of the RESERVE FUND from the year 1857 to the 30th of April, 1866.

FINANCIAL YEAR.	Amount received in account of year.			Amounts paid during year.			Balance decreased by the sum of			Balance increased by the sum of			
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
1857-8		128	18	2	-	-	-	-	-	128	18	2	
1858-9	12,423	10	4	2,523	3	1	-	-	-	9,900	7	3	
1859-60	-	-	-	-	-	-	-	-	-	-	-	-	
1860-1	7,637	0	10	8,951	12	7	1,314	11	9	-	-	-	
1861-2	9,539	11	11	6,773	1	6	-	-	-	2,766	10	5	
1862-3	25,481	9	9	10,574	10	7	-	-	-	14,906	19	2	
1863-4	39,606	14	3	8,523	8	7	-	-	-	31,083	5	8	
1864-5	5,314	11	0	14,460	18	4	9,146	7	4	-	-	-	
1865-6 (to 30th April)	631	16	7	23,638	0	10	23,006	4	3	-	-	-	
										58,786	0	8	
										38,467	3	4	
										Net Balance 30th April, 1866	-	-	£ 20,318 17 4

FRIDAY, 3RD AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

The committee resumed their inquiry into items of Unauthorized Expenditure.

Department of Minister for Defence.

Captain Holt attended and explained that the items of £603 9s. 2d. unauthorized expenditure was occasioned by the employment of an extra clerk during the year, and two during the latter half of it, in consequence of the Adjutant-General's Department being transferred to the Minister's of Defence Department.

Provincial Expenditure—Postal.

Mr. Gray attended, and explained that the unauthorized expenditure of £163 14s. 7d., under the head of "Auckland," was caused by the erection of some additional buildings to the Post Office; that that of £222 17s. 7d., under the head of "Taranaki," was occasioned by the appointment of an extra clerk and messenger arising out of the increased work caused in the office by the presence of a large number of troops in the Province; that that of £212 13s., under the head of "Wellington," was caused by the appointment of additional clerks, requisite on account of the increase of business at the offices of Wellington and Wanganui; that that of £441 17s. 7d., under the head of "Nelson," was caused by the additional postal service necessary in the Province chiefly on account of the Gold Fields. To similar causes the unauthorized expenditure of £475 19s., under the head of "Marlborough," and of £3,086 14s. 4d., under the head of "Canterbury," must be attributed.

Customs.

Mr. Seed attended, and explained that with regard to the unauthorized expenditure of £1428 4s. 4d. he was unable to state definitely the cause, but he believed that it was in consequence of the increased business of the establishment requiring increased assistance and buildings; that that of £127 9s. 4d., under the head of "Taranaki," was necessitated by extra assistance being required in consequence of the increased business of the department. This reason applies to the unauthorized expenditure in the Customs Department in the remaining Provinces, and particularly to that in Canterbury and Marlborough, where the Gold Fields have caused a large increase of business, and necessitated increased accommodation.

Electoral.

Mr. Macdonald, Chief Clerk in the Colonial Secretary's Office, was invited to attend and explain some items of unauthorized expenditure under the heads of "Registration" and "Electoral." The following questions were then given to him in writing, replies to which he promised to furnish the committee with by the next meeting:—

1st. How do you explain the items of unauthorized expenditure under the head "Electoral," 61 B. No. 2, Finance Account, 1864-5?

2nd. How are the electoral expenses regulated with regard to (1) Registration and Revising Officers; (2), Returning Officers; (3), Advertising and Printing?

The committee then adjourned till Monday, the 6th of August, at 10:30 a.m.

MONDAY, 6TH AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

Mr. Batkin attended, and explained that the item of £9601 14s. 1d. for printing and stationery, under the head of "Miscellaneous Services," 21 B. No. 2, and of £2092 5s. 9d. for "Printing Establishment," under the head of "Supplementary Expenditure," include all the expenses for General Government printing, except such as is connected with the war, and a trifling amount for printing and stationery connected with the Native Lands Court.

Dr. Knight attended, and stated that he had examined all the accounts. He then laid before the committee correspondence relative to the expenditure of money for the building of the new Post Office in Dunedin. A series of written questions were given him, to which he promised to furnish answers in writing.

The following replies to questions furnished him at the last meeting were given in by Mr. Macdonald, Chief Clerk in the Colonial Secretary's Office, in a letter addressed to the Chairman.

1st. The items of unauthorized expenditure, under the head of "Electoral" (61 B. No. 2), Finance Account, 1864-5, are for amounts in excess of the vote of the General Assembly, and form part of the Supplementary Estimates submitted for the consideration of the House.

2nd. The Registration and Returning Officers have nearly all fixed salaries voted by the General Assembly; those who have not receive fees for each election.

3rd. Revising Officers have fixed salaries voted by the General Assembly.

4th. There is a vote of the House for these items (advertising and printing) but each account requires Ministerial approval before it is paid, and if the vote is exceeded the amounts form part of the Supplementary Estimates submitted to the House for its consideration.

The committee agreed to call for vouchers covering the electoral expenses.

The committee then proceeded to examine the disbursements in the Finance Accounts seriatim, and passed all as far as the Native Schools Act (7 B. No. 2 A.)

Resolved—That vouchers for the expenditure under "The Native Schools Act, 1858," be produced.

Resolved—That the Under Secretary of the Native Department be summoned to attend before the committee on Tuesday, the 7th August, at 10:30 a.m.

The committee then adjourned till Tuesday, the 7th August, at 10:30 a.m.

TUESDAY, 7TH AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

The examination of the Finance Accounts for 1864-5 was resumed at

Native Schools Act, 1858.

Mr. Rolleston, Under Secretary of the Native Minister's Department, attended and explained that the Act authorizing the grants in aid of Native schools had lapsed, but at present the principle embodied in that Act is still acted upon. The payment was made according to the returns of the schools sent in, at a rate of £10 a head, excepting in the case of St. Stephen's Church of England School, Auckland, to which the payments are at a higher rate, and not made under the Act, but paid out of the general fund.

Native Purposes Appropriation Act, 1862.

Mr. Rolleston could not exactly say how the expenditure under this head for "presents to and entertainment of Natives" had been regulated, but at present it is under the direct control of the Minister without whose sanction no expenditure is made. With respect to the amounts for "Hospitals," formerly the Native Department took charge of the whole expenditure for these institutions, and charged at the rate of two shillings per diem. Now, however, the Native expenditure bears to the whole expenditure in the hospital the same ratio that the number of diets to Natives bears to the whole number of diets issued.

Mr. Rolleston promised to supply the committee with a detailed statement of expenditure, in continuation of Return E. No. 10, in "Appendix to the Journal of the House of Representatives, 1865."

The Committee then adjourned till Wednesday, 8th August, at 10:30 a.m.

WEDNESDAY, 8TH AUGUST, 1866.

The committee met pursuant to notice: Present all the members.

In consequence of the mails for the North and South of the Colony leaving this day, the committee adjourned till 9th August, at 10:30 a.m.

THURSDAY, 9TH AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

The Chairman laid before the committee papers and returns promised to be supplied by Mr. Rolleston, Under Secretary of the Native Department.

The Committee examined the returns furnished from the Native Department, and found that a record of all sums expended under "The Native Appropriation Act, 1862," under the head of "Miscellaneous," had been kept at the Native Office.

The vouchers covering the "Electoral" expenses, which had been called for on the 6th August, were laid upon the Table.

The committee examined certain vouchers covering "Electoral" expenses, more especially in the Provinces of Canterbury and Otago, whereupon it was

Resolved—That it is desirable to call the attention of the House to the very heavy expense incurred for advertising and printing electoral rolls, lists of claimants to vote, &c.

Native Purposes Appropriation Act, 1862.

Mr. Young, clerk in the Native Department, attended to give further information respecting the expenditure under this head. He stated that for large sums charged as "Miscellaneous" and "Presents" authority had been obtained previous to expenditure, but in cases where the amounts were small the authority for expenditure was, in most cases, given afterwards.

With regard to G. Law's defalcations, Mr. Young explained that Law was a Civil Commissioner at Taupo, and that advances in money were made to him to pay the salaries of Native assessors and other officers in his district. He sent in to the Government abstracts purporting to [be signed by Natives, but the signatures being thought not to be genuine inquiry was made, and it was discovered that he had not paid away the moneys. He was then charged with embezzlement before the Resident Magistrate in Auckland, but the case was dismissed. Nevertheless, the Government believing that the money had not been paid to the Natives, Law was dismissed the service.

By the Chairman.] Had Mr. Law been required to give security for money advanced? I do not think he had. The whole defalcation took place within a period of about seven months. I believe officers in the Native Department are now required by the Treasury to give security.

With reference to the charges for "Native purposes" in Provinces in the Middle Island, Mr. Young explained—

There is a branch of the Native Department maintained in Nelson principally for the purpose of looking after the Native reserves, and attending to the Natives resident chiefly in Massacre Bay and Motueka. The salaries are principally for a Civil Commissioner and Native Assessors. Of the latter there are three employed.

The expenses in Marlborough are incurred for similar reasons.

With regard to Canterbury, there is a branch establishment maintained in Christchurch, with an Interpreter, Assessors, and a Medical man.

The salaries under the head of Otago are for an Interpreter and an Assistant.

In Southland the expenses are for a Magistrate, a Medical man, and Assessors.

The following written questions, given to Dr. Knight on the 6th of August, with the answers furnished by him, having been given in, were read:—

Q.—In your certificate (dated 4th July, 1866), you state that you have examined the receipts and expenditure for the financial year 1864-5. Will you have the goodness to inform the committee by what process this examination has been conducted, and whether or not all vouchers for detailed expenditure have been passed through your office and found to be satisfactory? A.—The certificate mentioned bears reference to the eighth section of the Audit Act, and to the fifth, sixth, and seventh clauses of the Schedule to that Act.

The vouchers have been examined with reference to the requirements mentioned in the parts of the Act above referred to, and I find that the Colonial Treasurer is entitled to his 'quietus' from the House. But the certificate does not entirely cover the transactions of his Sub-Accountants. There may be errors in computations, &c., in some of the vouchers of the Sub-Accountants, and till the whole of these have been satisfactorily adjusted, the Auditor will not issue the 'quietus' required to be given under the fourth clause of the Schedule to the Audit Act, 1858.

It is clear that the Legislature did not intend that the statement of the Colonial Treasurer which is now under the examination of the Select Committee of the House should be withheld from the House until every matter in the Sub-Treasury accounts has been satisfactorily adjusted. The Audit Act requires the Treasurer's statement to be laid before the House within ten days after the same shall have been received by the Auditor.

The whole of the vouchers for the detailed expenditure at the Colonial Treasury have been passed through my office, the authorities and computations examined, and all objections satisfactorily adjusted. The whole of the Customs vouchers for the revenue collected have also been examined and found satisfactory. The vouchers for detailed expenditure at the Sub-Treasuries have been examined with reference to the following points and satisfactorily adjusted:—

1st. Whether or not the expenses have been duly authorized by Ministers?

2nd. Whether they are within the Estimates or not?

3rd. If not within the Estimates that the amount in excess of the Estimates has not been charged against the revenues of the year in the Colonial Treasurer's annual statement?

4th. Whether the Receivers of Revenue have accounted for their collections?

5th. Whether the balances shown in the accounts of the Sub-Accountants are in the Bank?

It may be mentioned that the vouchers objected to by the Auditor under inquiry No. 1, and which have been brought under the special notice of the Ministers for their consideration, exceed 4000 in number; and, in reference to the expenditure on account of the Militia, I find that about 6000 queries have been issued on the vouchers for the period subsequent to the month of February, 1864, and the number of surcharges on those queries were above 1500, and the total of the surcharges on those accounts, £896 1s. 2d.

Q.—Will you inform the committee as to the amount of the public moneys referred to in your certificate which has been issued from the Colonial Treasury without the sanction of the Governor's warrant, and under whose authority such moneys have been issued? *A.*—No warrants for the period have been forwarded to the Audit Office; it follows as a consequence that the whole of the issue is without legal authority. The moneys have been expended under Ministerial authority.

Q.—You state that the expenditure under "The Loan Act, 1862-3," from the 1st April to the 30th June, 1865, has not been separately shown as unauthorized expenditure. Will you explain the reason of this? *A.*—It was understood in the Treasury, at the time these expenses were being defrayed, that a Bill would be introduced by the then Colonial Treasurer, Mr. Fitzherbert, appropriating the balance of the Loan. In this proposed measure the expenses mentioned would have been included. An estimate of them was printed for the information of the General Assembly, but I am not informed whether it was laid on the table of the House of Representatives. The Treasury therefore continued to show the war expenses, &c., under the Loan as heretofore, because such an arrangement was convenient and did not interfere with the annual surplus revenue account. But though shown under the Loan, the unauthorized expenditure should have been distinguished from the authorized.

Q.—Under what authorities were the following expenditures warranted?

<i>Otago.</i>				£	s.	d.
Postal—New Post Office	...	...	...	5983	1	0
Money Order Funds and Stamps stolen	...	...	...	440	0	0

A.—The erection of the Post Office at Dunedin was undertaken under the Ministerial authority of Mr. Gillies. The loss of Money Order funds and stamps was ordered to be transferred from the revenue account to a suspense account by Major Richardson, the Postmaster-General. This arrangement was carried out by writing off the amounts as a charge on the revenues of the Province.

The committee then adjourned till Friday, the 10th of August, at 10:30 a.m.

FRIDAY, 10TH AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

The committee then agreed that a draft Report of their proceedings should be made, to be submitted to the committee at the next meeting.

The committee then adjourned till Wednesday, the 15th of August, at 10:30 a.m.

WEDNESDAY, 15TH AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The minutes of the last meeting were read and confirmed.

The committee read through and considered the minutes of the preceding meetings, and discussed the subjects to which it might be expedient to draw the special attention of the House in their Report.

Mr. Woodward attended, and gave some further information with regard to warrants, and the issue of money from the Treasury.

The committee adjourned.

TUESDAY, 21ST AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The draft Report was brought up and considered.

The committee adjourned till Wednesday, the 22nd August, at 10:30 a.m.

WEDNESDAY, 22ND AUGUST, 1866.

The committee met pursuant to adjournment: Present all the members.

The committee considered their Report, which was adopted, and it was agreed that the Report should be presented to the House this day.